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Janet Napolitano
Governor

ARIZONA DEPARTMENT
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2006 JUL 10 P 4:53
1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov



Stephen A. Owens
Director

AZ CORP COMMISSION
DOCUMENT CONTROL

July 5, 2006

Edmund Pamatat, Vice President of Aquisitions
Algonquin Power
2845 Bristol Circle
Oakville, Ontario, Canada L6H 7H7

Re: McLain Public Water Systems

Dear Mr. Pamatat:

This memorializes the intentions of the Arizona Department of Environmental Quality (ADEQ) with regard to regulatory compliance issues currently outstanding at the following facilities, known as the McLain Public Water Systems:

Cochise Water Company, PWS #AZ0402011
Horseshoe Ranch Water Company, PWS #AZ0402046
Miracle Valley Water Company, PWS #AZ0402023
Coronado Water Company, PWS #AZ0402013
Crystal Water Company, PWS #AZ0402074
Mustang Water Company, PWS #AZ0402054
Sierra Sunset Water Company, PWS #AZ0402055

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Arizona Corporation Commission

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ADEQ understands that Algonquin is in the process of acquiring the above-referenced facilities. As you know, these public water system facilities have been determined to be in noncompliance with statutory and regulatory provisions set forth in A.R.S., Title 49, Chapter 2, Article 9 and implementing rules. These violations are set forth in more detail in Notices of Violation and Consent Order P-163-02, copies of which are contained in the ADEQ files. Any purchaser of the facilities will be required under Arizona law and regulations to bring the facilities into compliance. ADEQ's primary concern is that the customers of these public water system facilities receive a safe and reliable supply of drinking water into the future.

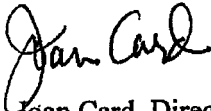
ADEQ intends, consistent with its statutory and regulatory obligations and with its enforcement policies, to provide a subsequent purchaser, such as Algonquin, with a reasonable and meaningful time period within which to bring the facilities into compliance. ADEQ intends to reach an agreement with Algonquin, once Algonquin owns the facilities, as to the appropriate schedule for achieving compliance with applicable statutes and rules. When Algonquin becomes the owner of the systems, ADEQ will commence discussions with Algonquin regarding an enforceable schedule. The enforceable schedule will be in the form of a standard consent order, consistent with ADEQ's compliance and enforcement policies.

Northern Regional Office
1515 East Cedar Avenue • Suite F • Flagstaff, AZ 86004
(928) 779-0313

Southern Regional Office
400 West Congress Street • Suite 433 • Tucson, AZ 85701
(520) 628-6733

We trust that this letter effectively communicates our desire to begin discussions with Algonquin, once the sale of the facilities is completed. We recognize the significant public health and convenience issues that have impacted so many customers of these water systems. We pledge our commitment to an efficient and speedy resolution of these matters, with the understanding that Algonquin will be committed similarly to work toward the goals of ensuring that the affected customers will obtain a safe and reliable drinking water supply.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joan Card".

Joan Card, Director
Water Quality Division

cc Stephen A. Owens, Director
 The Honorable Arizona Corporation Commissioners
 Arizona Corporation Commission Utilities Staff
 Bankruptcy Trustee